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OFFICE FOR PROJECT SERVICES

ROLE AND FUNCTIONS OF THE UNOPS MANAGEMENT COORDINATION COMMITTEE AND REPORT OF THE EXECUTIVE DIRECTOR ON WAYS OF ESTABLISHING THE OFFICE AS A SEPARATE AND IDENTIFIABLE ENTITY

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions (ACABQ) has considered advance copies of the following documents:

(a) Report of the Administrator of UNDP on the precise role and functions of the UNOPS Management Coordination Committee (DP/1994/61);

(b) Report of the Executive Director of the Office for Project Services on ways of establishing the office as a separate and identifiable entity (DP/1994/62);

(c) Report of the Executive Director of the Office for Project Services on ways of establishing the office as a separate and identifiable entity - UNOPS Users Advisory Group: role, composition, and functions (DP/1994/62/Add.1);

(d) Report of the Executive Director of the Office for Project Services on ways of establishing the office as a separate and identifiable entity - Proposed annex to the UNDP Financial Regulations and Rules to govern activities of OPS (DP/1994/62/Add.2);

(e) Report of the Executive Director of the Office for Project Services on ways of establishing the office as a separate and identifiable entity - Breakdown of revised budget estimates for the Office of Project Services for the biennium 1994-1995 (DP/1994/62/Add.3).

During its consideration of these matters, the Committee met with representatives of UNDP and UNOPS, who provided additional information and complementary documentation for the review of the Committee. The Administrator introduced all the documents before the Committee and responded to questions on all these matters.

The Office of Project Services (OPS) (DP/1994/62 and Addenda 1, 2 and 3)

2. The Executive Director of OPS and his representatives provided background to the Advisory Committee on the role of and functions of OPS, leading to its development as a flexible, innovative, self-financing entity for the provision of services to development projects. This approach has led to considerable interest on the part of its governing bodies to monitor OPS closely so as to place it in such a position that could complement the capacities found elsewhere in the United Nations system. A historical background of actions and decisions on OPS, leading to the present situation, is reproduced as annex I of the present document.

3. In accordance with paragraph 10 of decision 94/12, the Executive Director of OPS reports to the Executive Board in document DP/1994/62 on "ways of establishing OPS as a separate and identifiable entity and of increasing the transparency of its operations". In this regard, the Advisory Committee notes that the General Assembly, in its plenary meeting 105 of 19 September 1994, on the recommendation of the Economic and Social Council, as contained in decision 94/284, adopted on 26 July 1994, decided that "the Office for Project Services should become a separate and identifiable entity in accordance with the UNDP Executive Board decision 94/12 of 9 June 1994" (A/48/L.65). In accordance with paragraph 5 of the Board's decision, OPS should become "a separate and identifiable entity in a form that does not create a new agency and in partnership with UNDP and other operational entities, whose administrative support, including that relating to financial and personnel matters, will continue to be provided by UNDP and which will continue to work through the UNDP field network".

4. The Advisory Committee notes the chart (DP/1992/62, para. 9) on UNOPS structure and management mechanisms. The Committee is of the view that the relationships of UNOPS "with the entities involved in governing, servicing and advising it" are complex and that, at times, may hinder the effective communication and reporting systems of UNOPS. The Committee is aware that the proposed structure is the result of negotiations and compromises, leading to the present proposal. The Committee was informed by the Administrator and his representatives that in practice these potential difficulties shown in the chart would be overcome with a pragmatic approach to the management of UNOPS. Accordingly, the Committee trusts that the actual operational activities will be carried out in such a way so as to ensure the smooth and efficient functioning and to that end recommends that the Executive Board keeps these arrangements under review.

5. Paragraphs 17-47 of the report of the Executive Director of UNOPS (DP/1994/62) deal with the subject of finance and procurement. The Advisory Committee notes that the financial operations of UNOPS will be governed by its own financial regulations and rules in order to meet the object of OPS as a

separate and identifiable entity. The text of the proposed regulations and rules was developed based on UNDP financial Regulations and Rules, in response to paragraph 10 (c) of Executive Board decision 94/12. The proposed text (DP/1994/62/Add.2) was provided concurrently to the Advisory Committee and to the United Nations Legal Division for substantive review. Subsequent to the meetings that the Committee had with representatives of UNDP and UNOPS, written communication was received on 29 September 1994 from the Executive Director of UNOPS informing the Committee that the United Nations Legal Counsel had completed his review and was satisfied that the proposed text of the UNOPS financial regulations conform with the legal requirements of Executive Board decision 94/12. In view of the late submission, the Advisory Committee is unable to comment comprehensively on the proposed text of the UNOPS financial regulations; however, several references to the text appear in the paragraphs below. The Advisory Committee intends to keep the application of these regulations under review and report, as necessary, to the Executive Board.

6. Upon inquiry, the Advisory Committee was informed of the projected income of UNOPS for the 1994-1995 biennium. A table, showing projections of OPS delivery and support cost income earned, was furnished to the Committee and is reproduced as annex 2 to the present document. Even though OPS will not become operational until 1 January 1995, it will have recourse to income earned through the 1994-1995 biennium; this is expected to amount to approximately $62.5 million of support cost income, based on an estimated programme delivery of $830 million. In addition, UNOPS expects to earn $6.2 million for services provided to the International Fund for Agricultural Development. The Committee notes that UNOPS bases its administrative budget on projections of support cost income that may vary, according to the actual rates of programme delivery and provision of services.

7. The Advisory Committee was also informed that the actual administrative expenditures incurred by UNOPS are based on a closely monitored portfolio of projects implemented by UNOPS. In this regard, it was noted that, for example, vacant posts are filled only when the projects in the portfolio require the staff to carry out the implementation activities and the income sources have already been assured. The Committee was furnished with the UNOPS staffing situation as at 1 October 1994. This staffing table is reproduced as annex 3 to the present document.

8. The Advisory Committee notes that the Executive Director proposes the establishment of a reserve under the proposed financial regulation 8.3 (DP/1994/62, para. 33). This reserve would be established and replenished, as necessary, from the surplus of income over expenditure of the UNOPS operations. The reserve will, inter alia, "compensate for professional or contractual liabilities associated with UNOPS services" (proposed regulation 8.3 (c)). In the view of the Committee, the document does not provide information on the details regarding the "risks and liabilities to which the new entity may be susceptible" (para. 33) that would warrant the establishment of such reserve.

9. The Advisory Committee was informed that UNOPS will operate as a client-oriented, not-for-profit organization, deriving its income from fees and charges for a wide range of management and other support services in the field of development assistance. The Committee notes that as a result UNOPS may

accumulate unspent income over and above the actual requirements of the administrative budget. The Committee, therefore, recommends that UNOPS submit policy guideline proposals to the Executive Board for the application of income surplus in the context of the aims and purposes of UNOPS.

10. The Advisory Committee notes that, as indicated in paragraphs 30, 37 and 38 of the report of the Executive Director, in future bienniums, UNOPS will submit its administrative budget proposal in a form consistent with the proposed financial rules. Accordingly, UNOPS will no longer distinguish in its financial system income and expenditure as "budgetary" and "extrabudgetary", as these terms are relevant only to the UNDP operation. The Committee observes that, as stated in the proposed rule 109.3 (DP/1994/62/Add.2), the administrative budget will be accompanied by detailed tables, showing the estimated expenditures for both the programme expenditures and the administrative and support expenditures. The Committee trusts that the reimbursement to UNDP for administrative support services (i.e., "central" services mentioned in para. 24) will be equally detailed with a cost breakdown for the associated services provided by UNDP.

11. To enhance transparency and disclose properly the actual administrative cost incurred by UNOPS, the Advisory Committee, therefore, recommends that UNDP and UNOPS review the methodology of estimating reimbursement costs for services. In the view of the Committee, the present system of reimbursing UNDP on the basis of a flat rate of 14 per cent of the administrative expenditure incurred by OPS needs further refinement and rationalization. The Committee recalls that, with regard to reimbursement to field offices for the workload associated with the delegation to field offices to implement activities on behalf of UNOPS, UNOPS reimburses field offices only for the services provided to cost-sharing projects. In the case of indicative planning figure (IPF) projects, no reimbursement arrangements have been worked out, in spite of the substantial implementation-related tasks carried out by field offices on behalf of UNOPS (DP/1993/46, paras. 15 and 16).

12. In paragraphs 42-46, the report of the Executive Director outlines the procurement regime to be established at UNOPS. The Advisory Committee notes that the proposed financial rules on the subject of property control, procurement and inventory management (financial rules 114.15 to 114.37) were jointly formulated with UNDP, based on the existing UNDP Rules. The Committee was informed that UNOPS will set up its own Procurement Review and Advisory Committee (PRAC). As noted in paragraph 44, this new UNOPS committee draws upon the terms of reference of the UNDP Contracts Committee and takes into account recommendations of the Board of Auditors. Membership of PRAC (para. 45) will include not only staff of UNOPS but also of UNDP and other United Nations organizations, or, as may be required, individuals from the private sector and other specialists to bolster the expertise of the Committee, as recommended by the Board of Auditors (A/48/5/Add.1, para. 202). The Advisory Committee trusts that due consideration will also be given by the UNOPS administration to the other recommendations of the Board of Auditors with regard to the procurement operations of OPS (A/48/5/Add.1, paras. 184-204).

Functions of the UNOPS Management Coordination Committee (DP/1994/61)

13. The Advisory Committee notes that the UNDP Administrator submits his report to the Executive Board in response to paragraph 6 of its decision 94/12, by which the Executive Board agreed

> "in principle, to the Secretary-General's propcsal to establish, within existing resources, a Management Coordinating Committee for OPS in order to address certain perceived conflicts of interest between the coordinating and implementing roles of the United Nations Development Programme, subject to consideration of a report to be prepared by the Administrator in consultation with the Under-Secretary-General for Administration and Management and the Under-Secretary-General for Development Support and Management Services, on its precise role and functions at its third regular session in 1994."

14. In paragraphs 3-5, the report of the Administrator outlines the basic principles, composition and functions of the Management Coordinating Committee (MCC). The Advisory Committee notes the composition of the MCC recommended by the Administrator is in accordance with paragraph 7 of decision 94/12.

15. With regard to the functions of the MCC, the Advisory Committee notes that the functions include "establishing a proper oversight mechanism that will enable the Secretary-General to evaluate the responsiveness, performance, and effectiveness of the new Office of Project Services" (DP/1994/61, para. 7). The Advisory Committee is of the view that the establishment of another supervisory body, such as the MCC, might create an unnecessary and, perhaps, cumbersome reporting mechanism that may in some instances overlap with the supervisory role of the Executive Board (see para. 3 above).

Annex 1

A HISTORICAL BACKGROUND OF ACTIONS AND DECISIONS ON OPS

1. In his note A/47/753 of 3 December 1992 on restructuring and revitalization of the United Nations in the economic, social and related fields, the Secretary-General, referring to the work of a high-level panel of independent advisers, announced his decision to establish, as the next phase of his reform effort, three new departments in the Secretariat. One of these departments was the Department for Development Support and Management Services, which was to include the relevant core functions of the Office for Project Services (OPS) and the former Department of Technical Cooperation for Development (DTCD).

2. The Secretary-General designated Mr. Kenneth Dadzie as Special Adviser and Delegate of the Secretary-General on the reform of the economic and social sectors, including the proposed merger of OPS with DDSMS. The Special Adviser's report was issued on 7 February 1993.

3. The UNDP Governing Council, in its decision 93/7 of 19 February 1993, noted the intention of the Secretary-General and requested its President to bring several of its concerns to the attention of the General Assembly.

4. The United Nations programme budget revised estimates (A/C.5/47/88 of 4 March 1993) included the Secretary-General's proposal to establish OPS as a distinct, semi-autonomous entity located in DDSMS.

5. The Advisory Committee on Administrative and Budgetary Questions (ACABQ), in its report A/47/7/Add.15 of 24 March 1993, requested the Secretary-General to submit a detailed report on the modalities of the proposed merger.

6. A task force chaired by the Under-Secretary-General, DDSMS, reviewed the procedures to be put in place for the transfer of OPS and submitted its report to the Secretary-General. It was approved and submitted by him to the Governing Council in his note DP/1993/70 of 1 June 1993.

7. The UNDP Governing Council, in its decision 93/42 of 18 June 1993, accepted the modalities proposed in DP/1993/70, subject to several requirements, and identified items on which it required further information from the Secretary-General and review by the ACABQ.

8. The Secretary-General, in response to decision 93/42 of the Governing Council, submitted the report on "Institutional and administrative arrangements governing the integration of OPS/UNDP in the Department for Development Support and Management Services" (A/48/502 of 19 October 1993).

9. ACABQ, in its report A/48/7/Add.1 of 4 November 1993, recommended that the proposed date of the integration be postponed to 1 January 1995, and that the Secretary-General re-submit a report when all pending issues were resolved at the inter-organizational level.

10. Two addenda to the report of the Secretary-General were prepared, one on the organizational and budgetary arrangements for the proposed United Nations/OPS (A/48/502/Add.1 of 16 November 1993), and the other on financial regulations and rules to govern United Nations/OPS activities and operations (A/48/502/Add.2 of 17 November 1993). ACABQ began consideration of this additional documentation on 7 December 1993, but did not complete its review.

11. The UNDP Governing Council, in its decision 93/46 of 16 December 1993, recommended that the Office for Project Services should remain within UNDP until 1 January 1995, requested the OPS Management Board to clarify further the arrangements for transfer, and requested the Secretary-General to report to the Governing Council as soon as possible on steps taken in keeping with decision 93/42 and the recommendations of the ACABQ.

12. The Secretary-General submitted his draft report on the "Institutional and administrative arrangements concerning the Office for Project Services". This report was transmitted by the Administrator to the Executive Board with his note DP/1994/27 of 4 May 1994. The Executive Board, in its second regular session, 10-13 May 1994, decided to defer adoption of a decision on the OPS issue until its annual session in Geneva from 6-17 June 1994.

13. The Secretary-General put forward a new proposal for establishing the Office for Project Services as a separate and identifiable entity in his report DP/1994/52 of 6 June 1994.

14. The UNDP Executive Board, in its decision 94/12 of 9 June 1994, recommended to the General Assembly that, instead of the merger proposed in Governing Council decision 93/42 of 18 June 1993, the Office for Project Services should become a separate and identifiable entity in a form that does not create a new agency, and in partnership with UNDP and other operational entities. It further requested that the Administrator report on the precise role and functions of the proposed Management Coordination Committee, and that the Executive Director of OPS report, through the ACABQ, on ways of establishing the Office for Project Services as a separate and identifiable entity and of increasing the transparency of its operations.

15. In its decision E/DEC/1994/284 of 26 July 1994, the Economic and Social Council recommended to the General Assembly that it approve the UNDP Executive Board's recommendation in its decision 94/12 of 9 June 1994.

16. The Executive Director of OPS, pursuant to Executive Board decision 94/12, submitted his report DP/1994/62 of 12 August 1994 on ways of establishing OPS as a separate and identifiable entity.

17. The Administrator of UNDP, pursuant to Executive Board decision 94/12, submitted his report DP/1994/61 of 17 August 1994 on the precise role and functions of the UNOPS Management Coordination Committee.

18. In its decision 48/501 of 19 September 1994, the General Assembly decided that the Office for Project Services should become a separate and identifiable entity in accordance with the United Nations Development Programme Executive Board decision 94/12 of 9 June 1994.

19. On 27 September 1994, the Administrator of UNDP and the Executive Director of OPS presented their respective reports to ACABQ and responded to questions pertaining thereto.

Annex 2

OFFICE FOR PROJECT SERVICES (OPS)

PROJECTIONS OF PROJECT EXPENDITURES (OPS DELIVERY) AND OPS INCOME FOR THE BIENNIUM 1994/1995

(in thousands of US dollars)

	Project budgets and delivery	Estimated income		
		Estimated income on delivery **	Billings to IFAD ***	Estimated total income
Year 1994				
(a) 1994 budgets of projects already accepted, as of 26/9/94 (Includes approximately $110 million rephased from 1993)*	670 000			
(b) Expected additional 1994 budgets (for new projects accepted in last quarter)	10 000			
(c) Total estimated portfolio for 1994 (a+b)	680 000			
(d) Estimated delivery and income	410 000	30 750	3 000	33 750
(e) Unspent budgets (c-d) (This amount is to be rephased: 80% to 1995 and 20% to future years)*	270 000			
Year 1995				
(a) 1995 budgets of projects already accepted (data as of 26/9/94)	240 000			
(b) Rephasings from 1994 (80% of $270 million: approximately one-half will be rephased in October 1994, and the rest will be rephased at year-end as part of the "mandatory revisions")	216 000			
(c) Expected additional 1995 budgets (for new projects expected to be accepted in last quarter of 1994 and during 1995)	220 000			
(d) Total estimated portfolio for 1995 (a+b+c)	676 000			
(e) Estimated delivery and income	420 000	31 500	3 200	34 700
(f) Unspent budgets (d-e) (To be rephased to 1996 and future years)	256 000			
Total estimated delivery and income in the biennium [1994 (d) + 1995 (e)]	830 000	62 250	6 200	68 450

* The rephasing exercises are performed twice a year; first in October ("October rephasing") and then in March of the next year, when the accounts for the previous year are closed ("Mandatory revision/rephasing").

** Computed on 7.5% of delivery, which was the net average rate earned in prior years, after transfers to the field offices to compensate them for services provided to OPS.

*** These are billings to IFAD for services rendered by OPS for Loan administration and supervision of their projects. The loan drawdowns are not part of OPS delivery; they are made directly by borrowers.

Annex 3

OPS STAFFING SITUATION

(as of 1 October 1994)

POST LEVEL	CONTRACT TYPE		VACANCIES	TOTAL	ALDs 1)
Professionals	**Permanent**	**Fixed-Term 2)**			
ASG	---	1	---	1	---
D-2	1	---	---	1	---
D-1	7	1	1	9	---
P-5	9	18	4	31	---
P-4	12	12	5	29	5
P-3	8	7	1	16	1
P-2	1	1	2	4	---
TOTALS	38	41	12	91	6
General Service					
G-7	5	---	---	5	
G-6	40	1	3	44	
G-5	51	4	4	59	
G-4	20	8	7	35	
G-3	2	1	1	4	
G-2	1	2	---	3	
TOTALS	119	16	15	150	
GRAND TOTAL	157	57	27	241	6

1) ALD (Appointment of limited duration).

2) 14 staff members have fixed-term appointments limited to OPS: five P-5s/L-5s; five L-4s; two L-3s; two P-2s/L-2s